

Message Text

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ACTION AGR-08

INFO OCT-01 EUR-12 ISO-00 AGRE-00 EB-07 AID-05 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1113

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PASS AGRICULTURE ASST SEC BELL; D.J. NOVOTNY, G&F/FCA

E.O. 11652: N/A

TAGS: EARG, ETRD, CA

SUBJ: CANADA'S WHEAT EXPORT PRICING

REF: STATE 230365

1. ASST AGATT DISCUSSED CONCERN EXPRESSED IN REFTEL WITH N.A. O'CONNELL, CHIEF OF MARKET OPERATION, GRAIN MARKETING OFFICE, DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE (IT&C).
2. O'CONNELL EXPRESSED IT&C CONVENTIONAL WISDOM THAT CANADIAN WHEAT BOARD (CWB) WAS EXERCISING ITS SALES PREROGATIVE ACCORDING TO ITS OWN ANALYSIS OF THE WORLD GRAIN SUPPLY/DEMAND SITUATION AND IN ANY CASE WAS NOT SIGNIFICANTLY OUT OF STEP WITH U.S. PRICES GIVEN THE REALITIES OF INTERNATIONAL GRAIN MARKETING.
3. IN GENERAL CANADIAN MARKETING PRECEPTS ARE GEARED TOWARD STABILIZATION OF SHORT RUN FLUCTUATIONS AND IT COULD BE EXPECTED THAT THE DOWNWARD SLIDE OF PRICES WILL BOTTOM OUT PRIOR TO THE EXHAUSTION OF RESERVE SUPPLIES.

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4. CANADIAN GRAIN EXPERTS IN GOVERNMENT, THE CWB AND UNIVERSITIES HAVE NEVER BEEN ABLE TO ESTABLISH A LINK BETWEEN LEVEL OF INITIAL PRICE AND AREA ACTUALLY PLANTED.

5. FARMERS COLLECTIVELY SEEM TO RESPOND TO THEIR LONG TERM INTERESTS IN MAKING PLANTING PLANS HENCE RAPESEED ACREAGE WAS DIVERTED TO WHEAT AND IDEAL PLANTING CONDITIONS ALLOWED A MODEST EXPANSION OF WHEAT INTO SUMMERFALLOW AREA.

6. ALL EVIDENCE SEEMS TO INDICATE THAT FERTILIZER UTILIZATION WAS STEADY TO DOWN IN 1976 DUE TO DRYNESS DURING PLANTING SEASON AND FARMERS FAILURE TO BUY SUPPLIES AHEAD.

7. EXTRAORDINARY YIELDS THEREFORE WERE ATTRIBUTABLE TO BENIGN WEATHER CONDITIONS RATHER THAN ECONOMIC FACTORS.

8. IT&C AND CWB HAVE FELT PRESSURE FROM SOME PRODUCERS FOR YEARS TO ESTABLISH A FORMULA SETTING INITIAL PRICE AT 80 PERCENT OF FINAL PRICE. IT&C RESPONSE REMAINS THAT IT IS IMPOSSIBLE TO PREDICT THE MARKET PRECISELY HENCE NO WAY TO ESTABLISH FINAL POOL PRICE PRIOR TO ACTUAL SALES OF THE GRAIN. INITIAL PRICE CONTINUES TO REMAIN LARGELY A GUESSTIMATE OF MARKET STRENGTH.

9. FINALLY, INITIAL PRICE IS ALSO RELATED TO THE ACQUISITION OF EXPORT SUPPLIES BY THE CWB IN COMPETITION WITH THE REVISED DOMESTIC FEEDGRAINS POLICY.
ENDERS

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